

Message Text

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ACTION EA-12

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1567

INFO AMCONGEN HONG KONG

AMEMBASSY TAIPEI

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UNCLAS SECTION 1 OF 2 SEOUL 4920/1

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TAGS: ETRD, ECON, EFIN, KS

SUBJ: RISING PRICES MAR GOOD PERFORMANCE

REF: A) SEOUL 4823; B) SEOUL 3934

SUMMARY: EXCEPT FOR PRICES, WHICH CONTINUE THEIR UPWARD MOMENTUM, MOST ECONOMIC INDICATORS REMAIN STEADY. IN APRIL THE WARNING INDICATOR WAS UNCHANGED AT 1.8. INDUSTRIAL PRODUCTION INDEX INCREASED SLIGHTLY WHILE BUILDING CONSTRUCTION PERMITS IN MAJOR CITIES IS NOW SHOWING A DECREASE. DESPITE CREDIT EXPANSION IN THE PRIVATE SECTOR, THE ANNUAL INCREASE IN THE RATE OF GROWTH OF THE MONEY SUPPLY SLOWED TO 31.5 PERCENT IN MAY FROM THE 35 PERCENT LEVEL OF THE PREVIOUS MONTH. THE FOREIGN TRADE SECTOR MAINTAINED A HIGH 28 PERCENT GROWTH RATE OVER THE CORRESPONDING PERIOD OF LAST YEAR BUT THE GROWTH RATE OF IMPORTS APPEARS TO BE GAINING OVER EXPORTS. AS A RESULT OF RAPIDLY RISING FOOD PRICES, THE WHOLESALE AND CONSUMER PRICE INDICES INCREASED BY 0.8 PERCENT AND 1.0 PERCENT RESPECTIVELY IN MAY. - END SUMMARY

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1. INDUSTRIAL PRODUCTION REMAINED VIRTUALLY UNCHANGED IN APRIL AT 24.3 PERCENT ABOVE THE SAME PERIOD LAST YEAR. (23.1 PERCENT SEASONALLY ADJUSTED.) MANUFACTURING ROSE 0.1 PERCENT AND SHIPMENTS BY 0.9 PERCENT OVER MARCH LEVELS BU INVENTORIES DECLINED BY 4.5 PERCENT. FOR THE FIRST FOUR MONTHS PRODUCERS' GOODS HAVE ADVANCED 28.4 PERCENT ABOVE

1977 LEVELS WITH CONSUMER GOODS SHOWING A 20.8 PERCENT GAIN. BEST GROWTH HAS BEEN FOR MACHINERY AND EQUIPMENT (42.4 PERCENT) FOLLOWED BY PRIMARY METALS (29.6 PERCENT), WOOD PRODUCTS (25 PERCENT) AND CHEMICALS (23.9 PERCENT).

2. TOTAL CONSTRUCTION PERMITS SHOWED ONLY A MINOR 3.2 PERCENT ADVANCE IN APRIL OVER MARCH LEVELS BUT REMAINED AT A HIGH 77.8 PERCENT OVER FIRST FOUR MONTHS OF LAST YEAR. THE APRIL FIGURES WERE ADVERSELY AFFECTED BY A 62.2 PERCENT DROP IN INDUSTRIAL CONSTRUCTION PERMITS WHILE HOUSING ADVANCED 19.1 PERCENT ABOVE MARCH TOTALS. HOWEVER, GOVERNMENT RESTRICTIONS ON REAL ESTATE SPECULATION AND GROWING SHORTAGES OF MATERIALS AND LABOR ARE INDICATED IN PRELIMINARY ESTIMATES FOR HOUSING PERMITS ISSUED IN MAY IN MAJOR CITIES. THIS FIGURE SHOWED A 15.7 PERCENT DECLINE WITH ALL COMPONENTS, EXCEPT HOUSING WHICH EKED OUT A MEAGER 0.1 PERCENT GAIN, SHOWING LARGE DECLINES. THE CONSTRUCTION BOOM MAY BE DECELERATING ALTHOUGH IT SHOWS LITTLE SIGNS OF COMING TO AN END.

3. THERE WAS GOOD NEWS FOR THE GOVERNMENT PLANNERS ON THE MONETARY SCENE BUT UNWELCOME INDICATORS IN THE PRICE FRONT. THE MONEY SUPPLY FELL BY 1.6 PERCENT (UP 0.4 PERCENT SEASONALLY ADJUSTED) AND NOW STANDS AT 31.5 PERCENT OVER MAY 1977 LEVELS BUT ONLY 0.2 PERCENT GROWTH SINCE DECEMBER. BOTH THE GOVERNMENT AND FOREIGN ASSETS SECTORS UNCLASSIFIED

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OF THE MONETARY BASE DROPPED SIGNIFICANTLY IN MAY. NET DOMESTIC CREDIT SHOWS A MUCH MORE RAPID GROWTH RATE (UP 19.6 PERCENT SINCE DECEMBER AND 38.2 PERCENT SINCE MAY 1977) PACED BY CREDITS TO THE PRIVATE SECTOR. STANDING AT 1,444 BILLION WON AT THE END OF MAY, DOMESTIC CREDITS ARE REPORTED AT 60 PERCENT OF THE YEAR'S TARGET, PRESAGING A POSSIBLE MONETARY SQUEEZE IN THE MONTHS AHEAD.

4. BOTH CONSUMER AND WHOLESALE PRICES DEMONSTRATED ABOVE-AVERAGE JUMPS IN MAY, LED IN BOTH CASES BY FOOD PRICES. CONSUMER PRICES ROSE 1 PERCENT OVER APRIL (UP 7.3 PERCENT SINCE DECEMBER) WITH FOOD PRICES UP BY 1.7 PERCENT FOR THE MONTH. CLOTHING PRICES ALSO SHOWED AN ABOVE AVERAGE 1.5 PERCENT INCREASE. THE WHOLESALE INDEX WAS UP BY 0.8 PERCENT (5.9 PERCENT SINCE DECEMBER). WHOLESALE FOOD PRICES ROSE 2 PERCENT FOR THE MONTH (UP AN UNWELCOME 12.1 PERCENT SINCE DECEMBER). RICE, MEATS, AND VEGETABLES ARE IN THE VANGUARD OF THE PRICE RISES AS A RESULT OF BAD HARVESTS OF SOME VEGETABLES DUE TO THE DROUGHT AND INCREASING DEMAND. TO HOLD DOWN PRICES THE GOVERNMENT IS INCREASING IMPORTS OF AGRICULTURAL PRODUCTS INCLUDING HOT PEPPERS AND GARLIC.

5. THE FOREIGN SECTOR CONTINUED ON A STEADY COURSE WITH EXPORTS AT 1,001 MILLION DOLLARS IN MAY DOWN BY 0.2 PERCENT FROM APRIL BUT A STEADY 27.9 PERCENT GROWTH OVER THE PREVIOUS FIRST FIVE-MONTH PERIOD OF 1977. HOWEVER, ON A SEASONALLY ADJUSTED BASIS THE MAY EXPORT FIGURES WERE NOT SO IMPRESSIVE AT \$923 MILLION, REGISTERING A 13.2 PERCENT DECLINE FROM THE SEASONALLY ADJUSTED APRIL DATA. L/C ARRIVALS IN MAY FELL BY 13.7 PERCENT AND NOW STAND AT 17.8 PERCENT OVER PREVIOUS YEAR'S LEVELS. EXPORTS FOR THE FIRST FIVE MONTHS NOW STAND AT \$4,644 MILLION OR 37 PERCENT OF THE \$12.5 BILLION TARGET, ABOUT THE SAME PERCENTAGE AS IT STOOD ONE YEAR AGO IN RELATION TO THE \$10 BILLION TARGET. THUS, INDICATIONS ARE THAT THE TARGET SHOULD BE MET BUT WITH LITTLE TO SPARE.

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6. IMPORTS (CIF) SET A NEW RECORD IN MAY AT \$1,204 MILLION UP 5.5 PERCENT OVER APRIL AND 27.8 PERCENT FROM LAST YEAR (\$1,100.5 MILLION SEASONALLY ADJUSTED). ALTHOUGH IMPORT LICENSES FELL 0.3 PERCENT FROM APRIL, FOR THE FIRST FIVE MONTHS THEY REMAIN A SIGNIFICANT 45.5 PERCENT ABOVE 1977.

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INFO AMCONGEN HONG KONG

AMEMBASSY TAIPEI

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UNCLAS FINAL SECTION OF 2 SEOUL 4920/2

7. KOREA'S FOREIGN EXCHANGE RESERVES FELL \$36 MILLION TO \$4,102 MILLION BY THE END OF MAY. FOR THE MONTH THE CURRENT BALANCE WAS A NEGATIVE \$103 MILLION AS NET INVISIBLE RECEIPTS AND TRANSFERS DID NOT COVER THE \$149 MILLION TRADE DEFICIT. AT \$105 MILLION NET LONG-TERM CAPITAL INFLOWS CONTINUED POSITIVE BUT SHORT-TERM CAPITAL REGISTERED A \$262 MILLION OUTFLOW. OVERALL, FOR THE FIRST FIVE MONTHS THE BOP SHOWS A CURRENT ACCOUNT DEFICIT OF \$125 MILLION BUT A STRONG POSITIVE BASIC BALANCE OF \$530 MILLION. NET LONG-TERM CAPITAL INFLOWS STAND AT \$655 MILLION FOR THE PERIOD COMPARED TO A BILLION DOLLAR SHORT-TERM NET CAPITAL OUTFLOW. AS A RESULT FOREIGN EXCHANGE HOLDINGS HAVE DECLINED \$204 MILLION FOR THE PERIOD RELIEVING PRESSURE ON THE MONEY SUPPLY. (FOR THE FIRST FIVE MONTHS OF 1977 FOREIGN EXCHANGE HOLDINGS HAD GAINED \$560 MILLION.)

8. COMMENT: AT PRESENT THE ECONOMY MAY BE CHARACTERIZED AS ON A STEADY COURSE WITH THE PRINCIPAL PROBLEMS IN THE AGRICULTURAL SECTOR AS A RESULT OF WEATHER CONDITIONS AND A CONCOMITANT PRESSURE ON FOOD PRICES. OFFICIAL SPOKESMEN ARE NOW BEGINNING TO ACKNOWLEDGE IT MAY BE IMPOSSIBLE TO HOLD THE 10 PERCENT UNCLASSIFIED

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PRICE INCREASE RATE--15 PERCENT OR GREATER APPEARS MORE AND MORE LIKELY. THE GOVERNMENT IS SCHEDULING, ACCORDING TO PRESS REPORTS, A SERIES OF PRICE INCREASES OVER THE NEXT FEW MONTHS IN ENERGY, TRANSPORTATION AND SOME MONOPOLY GOODS. THERE IS ALSO INCREASED SPECULATION OF A RISE IN INTEREST RATES TO CONTRACT THE MONEY SUPPLY BY INCREASING THE ATTRACTIVENESS OF SAVINGS DEPOSITS AND REDUCE SPECULATIVE ACTIVITY CONTRIBUTING TO THE INFLATIONARY PRESSURES.
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